

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="60"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2015"/> - * <input type="text" value="058"/>
		Amendment No. (req. for Amendments *) <input type="text"/>

Filing by Financial Industry Regulatory Authority  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input checked="" type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input checked="" type="checkbox"/>
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**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \*  Last Name \*

Title \*

E-mail \*

Telephone \*  Fax

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date  Senior Vice President and Deputy General Counsel

By

(Name \*)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information \***

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

Add Remove View

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**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

Add Remove View

Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

Add Remove View

Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

Add Remove View

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

Add Remove View

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

**1. Text of the Proposed Rule**

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “SEA”),<sup>1</sup> Financial Industry Regulatory Authority, Inc. (“FINRA”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) revisions to the content outline and selection specifications for the General Securities Sales Supervisor (Series 9/10) examination program.<sup>2</sup> The proposed revisions update the material to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a General Securities Sales Supervisor. In addition, FINRA is proposing to make changes to the format of the content outline. FINRA is not proposing any textual changes to the By-Laws, Schedules to the By-Laws or Rules of FINRA.

The revised content outline is attached. The Series 9/10 selection specifications have been submitted to the Commission under separate cover with a request for confidential treatment pursuant to SEA Rule 24b-2.<sup>3</sup>

(b) Not applicable.

(c) Not applicable.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> FINRA also is proposing corresponding revisions to the Series 9/10 question bank. Based on instruction from SEC staff, FINRA is submitting this filing for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(1) thereunder, and is not filing the question bank for review. See Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000. The question bank is available for SEC review.

<sup>3</sup> 17 CFR 240.24b-2.

**2. Procedures of the Self-Regulatory Organization**

The proposed rule change was approved by the Board of Directors of FINRA Regulation, Inc. (f/k/a NASD Regulation, Inc.) at its meeting on January 24, 2001, which authorized the staff to propose modifications to examination programs, including content outlines, selection specifications and question banks, and to file the proposed modifications with the SEC, without obtaining further or specific authorization from the Board of Directors of FINRA Regulation, Inc. The Board of Governors of FINRA (f/k/a NASD) had an opportunity to review that action at its meeting on January 25, 2001. No other action by FINRA is necessary for the filing of the proposed rule change.

As further discussed below, FINRA is filing the proposed rule change for immediate effectiveness. FINRA proposes to implement the revised Series 9/10 examination program on March 7, 2016. FINRA will announce the proposed rule change and the implementation date in a Regulatory Notice.

**3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

(a) Purpose

Section 15A(g)(3) of the Act<sup>4</sup> authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. In accordance with that provision, FINRA has developed examinations that are designed to establish that persons associated with FINRA members have attained specified levels of competence and knowledge, consistent with applicable registration requirements under FINRA rules. FINRA periodically reviews the content of the examinations to determine

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<sup>4</sup> 15 U.S.C. 78q-3(g)(3).

whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

NASD Rule 1022(g) states that members may register with FINRA an individual as a General Securities Sales Supervisor if the individual's supervisory responsibilities in the investment banking and securities business are limited solely to the securities sales activities of a member, including the training of sales and sales supervisory personnel and the maintenance of records of original entry and ledger accounts of the member required to be maintained in branch offices by SEC recordkeeping rules.<sup>5</sup> A General Securities Sales Supervisor is precluded from performing any of the following activities: (1) functioning in a principal capacity with responsibility over any area of business activity not stated above; (2) supervision of the origination and structuring of underwritings; (3) supervision of market making commitments; (4) supervision of the custody of firm or customer funds or securities for purposes of SEA Rule 15c3-3; or (5) supervision of overall compliance with financial responsibility rules for broker-dealers promulgated pursuant to the provisions of the Act. Further, a General Securities Sales Supervisor is not qualified to be included for purposes of the principal numerical requirements of NASD Rule 1021(e)(1).

To register as a General Securities Sales Supervisor, an individual must be registered pursuant to the NASD Rule 1030 Series as a General Securities Representative. In addition, the individual must pass the Series 9/10 examination.

In consultation with a committee of industry representatives, FINRA recently undertook a review of the Series 9/10 examination program. As a result of this review,

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<sup>5</sup> NASD Rule 1022(g) also includes additional requirements applicable to General Securities Sales Supervisors engaged in securities futures activities.

FINRA is proposing to make revisions to the content outline to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a General Securities Sales Supervisor.

FINRA also is proposing to make changes to the format of the content outline.

### **Current Content Outline**

The current content outline is divided into six sections. The following are the six sections and the number of questions associated with each of the sections, denoted

Section 1 through Section 6:

1. Hiring, Qualifications, and Continuing Education, 9 questions;
2. Supervision of Accounts and Sales Activities, 94 questions;
3. Conduct of Associated Persons, 14 questions;
4. Recordkeeping Requirements, 8 questions;
5. Municipal Securities Regulation, 20 questions;
6. Options Regulation, 55 questions.

Each section also includes the applicable laws, rules and regulations associated with that section. The current content outline also includes a preface (addressing, among other things, the purpose, administration and scoring of the examination), sample questions and reference materials.

### **Proposed Revisions**

FINRA is proposing to divide the content outline into two parts with eight major job functions that are performed by a General Securities Sales Supervisor. The following are the two parts each with four major job functions, denoted as Parts 1 and 2 with Function 1 through Function 4, respectively, with the associated number of questions:

Part 1:

Function 1: Supervise Associated Persons and Personnel Management Activities, 28 questions;

Function 2: Supervise the Opening and Maintenance of Customer Accounts, 49 questions;

Function 3: Supervise Sales Practices and General Trading Activities, 52 questions;

Function 4: Supervise Communications with the Public, 16 questions.

Part 2:

Function 1: Supervise the Opening and Maintenance of Customer Options Accounts, 18 questions;

Function 2: Supervise Sales Practices and General Options Trading Activities, 19 questions;

Function 3: Supervise Options Communications, 5 questions;

Function 4: Supervise Associated Persons and Personnel Management Activities, 13 questions.

FINRA is proposing to adjust the number of questions assigned to each major job function to ensure that the overall examination better reflects the key tasks performed by a General Securities Sales Supervisor. The questions on the revised Series 9/10 examination will place greater emphasis on key tasks such as supervision of registered persons, sales practices and compliance.

Each function also includes specific tasks describing activities associated with performing that function. In Part 1, there are five tasks (1.1 – 1.5) associated with

Function 1; four tasks (2.1 – 2.4) associated with Function 2; five tasks (3.1 – 3.5) associated with Function 3; and four tasks (4.1 – 4.4) associated with Function 4. In Part 2, there are three tasks (1.1 – 1.3) associated with Function 1; four tasks (2.1 – 2.4) associated with Function 2; three tasks (3.1 – 3.3) associated with Function 3; and one task (4.1) associated with Function 4.<sup>6</sup> By way of example, one such task (Task 4.2 in Part 1) is review retail communications and determine appropriate approval.<sup>7</sup> Further, the content outline lists the knowledge required to perform each function and associated tasks (e.g., types of retail communications, required approvals).<sup>8</sup> In addition, where applicable, the content outline lists the laws, rules and regulations a candidate is expected to know to perform each function and associated tasks. These include the applicable FINRA Rules (e.g., FINRA Rule 2210), MSRB Rules (e.g., MSRB Rule G-27(e)) and SEC rules (e.g., Rule 135a under the Securities Act of 1933).<sup>9</sup> FINRA conducted a job analysis study of General Securities Sales Supervisors, which included the use of a survey, in developing each function and associated tasks and updating the required knowledge set forth in the revised content outline. The functions and associated tasks, which appear in the revised content outline for the first time, reflect the day-to-day activities of a General Securities Sales Supervisor.

As noted above, FINRA also is proposing to revise the content outline to reflect changes to the laws, rules and regulations covered by the examination. Among other

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<sup>6</sup> See Exhibit 3a, Outline Pages 5 – 26.

<sup>7</sup> See Exhibit 3a, Outline Page 17.

<sup>8</sup> See Exhibit 3a, Outline Page 17.

<sup>9</sup> See Exhibit 3a, Outline Page 17-18.



revisions, FINRA is proposing to revise the content outline to reflect the adoption of rules in the consolidated FINRA rulebook (e.g., NASD Rule 2310 (Recommendations to Customers (Suitability)), NASD Rule 2212 (Telemarketing) and NASD Rule 3110 (Books and Records) were adopted as FINRA Rule 2111 (Suitability), FINRA Rule 3230 (Telemarketing) and FINRA Rule 4510 Series (Books and Records Requirements), respectively).<sup>10</sup>

FINRA is proposing similar changes to the Series 9/10 selection specifications and question bank.

Finally, FINRA is proposing to make changes to the format of the content outline, including the preface, sample questions and reference materials. Among other changes, FINRA is proposing to: (1) add a table of contents;<sup>11</sup> (2) provide more details regarding the purpose of the examination;<sup>12</sup> (3) provide more details on the application procedures;<sup>13</sup> (4) provide more details on the development and maintenance of the content outline and examination;<sup>14</sup> (5) explain that the passing scores are established by FINRA staff, in consultation with a committee of industry representatives, using a standard setting procedure, and that a statistical adjustment process known as equating is used in scoring exams;<sup>15</sup> and (6) note that each candidate will receive a report at the end

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<sup>10</sup> See Rule Conversion Chart, available at <http://www.finra.org/Industry/Regulation/FINRARules/p085560>.

<sup>11</sup> See Exhibit 3a, Outline Page 1.

<sup>12</sup> See Exhibit 3a, Outline Page 2.

<sup>13</sup> See Exhibit 3a, Outline Page 2.

<sup>14</sup> See Exhibit 3a, Outline Page 3.

<sup>15</sup> See Exhibit 3a, Outline Page 4.

of the test session, which will indicate a pass or fail status and include a score profile listing the candidate's performance on each major content area covered on the examination.<sup>16</sup>

The number of questions on the Series 9/10 examination will remain at 200 multiple-choice questions (55 on the Series 9 and 145 on the Series 10).<sup>17</sup> Candidates will have 90 minutes to complete the Series 9 exam and 240 minutes to complete the Series 10 exam. The passing score for the Series 9 is 70 percent and the passing score for the Series 10 is 70 percent. These are unchanged.

### **Availability of Content Outline**

The current Series 9/10 content outline is available on FINRA's website, at [www.finra.org/brokerqualifications/exams](http://www.finra.org/brokerqualifications/exams). The revised Series 9/10 content outline will replace the current content outline on FINRA's website.

FINRA is filing the proposed rule change for immediate effectiveness. FINRA proposes to implement the revised Series 9/10 examination program on March 7, 2016. FINRA will announce the proposed rule change and the implementation date in a Regulatory Notice.

#### (b) Statutory Basis

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<sup>16</sup> See Exhibit 3a, Outline Page 4.

<sup>17</sup> Consistent with FINRA's practice of including "pretest" items on certain qualification examinations, which is designed to ensure that new examination items meet acceptable testing standards prior to use for scoring purposes, the examinations include 15 additional, unidentified pretest items that do not contribute towards the candidate's score. Therefore, the examination actually consists of 215 items, 200 of which are scored. The 15 pretest items are randomly distributed throughout the examination.

FINRA believes that the proposed revisions to the Series 9/10 examination program are consistent with the provisions of Section 15A(b)(6) of the Act,<sup>18</sup> which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest, and Section 15A(g)(3) of the Act,<sup>19</sup> which authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. FINRA believes that the proposed revisions will further these purposes by updating the examination program to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a General Securities Sales Supervisor.

**4. Self-Regulatory Organization's Statement on Burden on Competition**

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The updated examination aligns with the functions and associated tasks currently performed by a General Securities Sales Supervisor and tests knowledge of the most current laws, rules, regulations and skills relevant to those functions and associated tasks. As such, the proposed revisions would make the examination more efficient and effective.

**5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

Written comments were neither solicited nor received.

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<sup>18</sup> 15 U.S.C. 78o-3(b)(6).

<sup>19</sup> 15 U.S.C. 78o-3(g)(3).

**6. Extension of Time Period for Commission Action**

Not applicable.

**7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)**

The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A)(i) of the Act<sup>20</sup> and Rule 19b-4(f)(1) thereunder,<sup>21</sup> in that the proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of FINRA. FINRA proposes to implement the revised Series 9/10 examination program on March 7, 2016. FINRA will announce the implementation date in a Regulatory Notice.

**8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

Not applicable.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

**11. Exhibits**

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

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<sup>20</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>21</sup> 17 CFR 240.19b-4(f)(1).

Exhibit 3a. Revised Content Outline for the Series 9/10 Examination.

Exhibit 3b. Revised Selection Specifications for the Series 9/10 Examination.

FINRA has requested confidential treatment for the Series 9/10 revised selection specifications, and thus the specifications are omitted from this filing. The Series 9/10 revised selection specifications have been filed separately with the Commission pursuant to SEA Rule 24b-2.<sup>22</sup>

Exhibit 3c. Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, Inc. from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000.

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<sup>22</sup> 17 CFR 240.24b-2.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-FINRA-2015-058)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to the Series 9/10 Examination Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “SEA”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on , Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. FINRA has designated the proposed rule change as “constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule” under Section 19(b)(3)(A)(i) of the Act<sup>3</sup> and Rule 19b-4(f)(1) thereunder,<sup>4</sup> which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

FINRA is filing revisions to the content outline and selection specifications for

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>4</sup> 17 CFR 240.19b-4(f)(1).

the General Securities Sales Supervisor (Series 9/10) examination program.<sup>5</sup> The proposed revisions update the material to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a General Securities Sales Supervisor. In addition, FINRA is proposing to make changes to the format of the content outline. FINRA is not proposing any textual changes to the By-Laws, Schedules to the By-Laws or Rules of FINRA.

The revised content outline is attached. The Series 9/10 selection specifications have been submitted to the Commission under separate cover with a request for confidential treatment pursuant to SEA Rule 24b-2.<sup>6</sup>

The text of the proposed rule change is available on FINRA's website at <http://www.finra.org>, at the principal office of FINRA and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at

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<sup>5</sup> FINRA also is proposing corresponding revisions to the Series 9/10 question bank. Based on instruction from SEC staff, FINRA is submitting this filing for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(1) thereunder, and is not filing the question bank for review. See Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000. The question bank is available for SEC review.

<sup>6</sup> 17 CFR 240.24b-2.

the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Section 15A(g)(3) of the Act<sup>7</sup> authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. In accordance with that provision, FINRA has developed examinations that are designed to establish that persons associated with FINRA members have attained specified levels of competence and knowledge, consistent with applicable registration requirements under FINRA rules. FINRA periodically reviews the content of the examinations to determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

NASD Rule 1022(g) states that members may register with FINRA an individual as a General Securities Sales Supervisor if the individual's supervisory responsibilities in the investment banking and securities business are limited solely to the securities sales activities of a member, including the training of sales and sales supervisory personnel and the maintenance of records of original entry and ledger accounts of the member required to be maintained in branch offices by SEC recordkeeping rules.<sup>8</sup> A General Securities Sales Supervisor is precluded from performing any of the following activities: (1) functioning in a principal capacity with responsibility over any area of business activity

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<sup>7</sup> 15 U.S.C. 78o-3(g)(3).

<sup>8</sup> NASD Rule 1022(g) also includes additional requirements applicable to General Securities Sales Supervisors engaged in securities futures activities.



not stated above; (2) supervision of the origination and structuring of underwritings; (3) supervision of market making commitments; (4) supervision of the custody of firm or customer funds or securities for purposes of SEA Rule 15c3-3; or (5) supervision of overall compliance with financial responsibility rules for broker-dealers promulgated pursuant to the provisions of the Act. Further, a General Securities Sales Supervisor is not qualified to be included for purposes of the principal numerical requirements of NASD Rule 1021(e)(1).

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In consultation with a committee of industry representatives, FINRA recently undertook a review of the Series 9/10 examination program. As a result of this review, FINRA is proposing to make revisions to the content outline to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a General Securities Sales Supervisor. FINRA also is proposing to make changes to the format of the content outline.

#### Current Content Outline

The current content outline is divided into six sections. The following are the six sections and the number of questions associated with each of the sections, denoted

Section 1 through Section 6:

1. Hiring, Qualifications, and Continuing Education, 9 questions;
2. Supervision of Accounts and Sales Activities, 94 questions;
3. Conduct of Associated Persons, 14 questions;

4. Recordkeeping Requirements, 8 questions;
5. Municipal Securities Regulation, 20 questions;
6. Options Regulation, 55 questions.

Each section also includes the applicable laws, rules and regulations associated with that section. The current content outline also includes a preface (addressing, among other things, the purpose, administration and scoring of the examination), sample questions and reference materials.

#### Proposed Revisions

FINRA is proposing to divide the content outline into two parts with eight major job functions that are performed by a General Securities Sales Supervisor. The following are the two parts each with four major job functions, denoted as Parts 1 and 2 with Function 1 through Function 4, respectively, with the associated number of questions:

#### Part 1:

Function 1: Supervise Associated Persons and Personnel Management Activities, 28 questions;

Function 2: Supervise the Opening and Maintenance of Customer Accounts, 49 questions;

Function 3: Supervise Sales Practices and General Trading Activities, 52 questions;

Function 4: Supervise Communications with the Public, 16 questions.

#### Part 2:

Function 1: Supervise the Opening and Maintenance of Customer Options Accounts, 18 questions;

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FINRA is proposing to adjust the number of questions assigned to each major job function to ensure that the overall examination better reflects the key tasks performed by a General Securities Sales Supervisor. The questions on the revised Series 9/10 examination will place greater emphasis on key tasks such as supervision of registered persons, sales practices and compliance.

Each function also includes specific tasks describing activities associated with performing that function. In Part 1, there are five tasks (1.1 – 1.5) associated with Function 1; four tasks (2.1 – 2.4) associated with Function 2; five tasks (3.1 – 3.5) associated with Function 3; and four tasks (4.1 – 4.4) associated with Function 4. In Part 2, there are three tasks (1.1 – 1.3) associated with Function 1; four tasks (2.1 – 2.4) associated with Function 2; three tasks (3.1 – 3.3) associated with Function 3; and one task (4.1) associated with Function 4.<sup>9</sup> By way of example, one such task (Task 4.2 in Part 1) is review retail communications and determine appropriate approval.<sup>10</sup> Further, the content outline lists the knowledge required to perform each function and associated tasks (e.g., types of retail communications, required approvals).<sup>11</sup> In addition, where

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<sup>9</sup> See Exhibit 3a, Outline Pages 5 – 26.

<sup>10</sup> See Exhibit 3a, Outline Page 17.

<sup>11</sup> See Exhibit 3a, Outline Page 17.

applicable, the content outline lists the laws, rules and regulations a candidate is expected to know to perform each function and associated tasks. These include the applicable FINRA Rules (e.g., FINRA Rule 2210), MSRB Rules (e.g., MSRB Rule G-27(e)) and SEC rules (e.g., Rule 135a under the Securities Act of 1933).<sup>12</sup> FINRA conducted a job analysis study of General Securities Sales Supervisors, which included the use of a survey, in developing each function and associated tasks and updating the required knowledge set forth in the revised content outline. The functions and associated tasks, which appear in the revised content outline for the first time, reflect the day-to-day activities of a General Securities Sales Supervisor.

As noted above, FINRA also is proposing to revise the content outline to reflect changes to the laws, rules and regulations covered by the examination. Among other revisions, FINRA is proposing to revise the content outline to reflect the adoption of rules in the consolidated FINRA rulebook (e.g., NASD Rule 2310 (Recommendations to Customers (Suitability)), NASD Rule 2212 (Telemarketing) and NASD Rule 3110 (Books and Records) were adopted as FINRA Rule 2111 (Suitability), FINRA Rule 3230 (Telemarketing) and FINRA Rule 4510 Series (Books and Records Requirements), respectively).<sup>13</sup>

FINRA is proposing similar changes to the Series 9/10 selection specifications and question bank.

Finally, FINRA is proposing to make changes to the format of the content outline, including the preface, sample questions and reference materials. Among other changes,

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<sup>12</sup> See Exhibit 3a, Outline Page 17-18.

<sup>13</sup> See Rule Conversion Chart, available at <http://www.finra.org/Industry/Regulation/FINRARules/p085560>.

FINRA is proposing to: (1) add a table of contents;<sup>14</sup> (2) provide more details regarding the purpose of the examination;<sup>15</sup> (3) provide more details on the application procedures;<sup>16</sup> (4) provide more details on the development and maintenance of the content outline and examination;<sup>17</sup> (5) explain that the passing scores are established by FINRA staff, in consultation with a committee of industry representatives, using a standard setting procedure, and that a statistical adjustment process known as equating is used in scoring exams;<sup>18</sup> and (6) note that each candidate will receive a report at the end of the test session, which will indicate a pass or fail status and include a score profile listing the candidate's performance on each major content area covered on the examination.<sup>19</sup>

The number of questions on the Series 9/10 examination will remain at 200 multiple-choice questions (55 on the Series 9 and 145 on the Series 10).<sup>20</sup> Candidates will have 90 minutes to complete the Series 9 exam and 240 minutes to complete the

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<sup>14</sup> See Exhibit 3a, Outline Page 1.

<sup>15</sup> See Exhibit 3a, Outline Page 2.

<sup>16</sup> See Exhibit 3a, Outline Page 2.

<sup>17</sup> See Exhibit 3a, Outline Page 3.

<sup>18</sup> See Exhibit 3a, Outline Page 4.

<sup>19</sup> See Exhibit 3a, Outline Page 4.

<sup>20</sup> Consistent with FINRA's practice of including "pretest" items on certain qualification examinations, which is designed to ensure that new examination items meet acceptable testing standards prior to use for scoring purposes, the examinations include 15 additional, unidentified pretest items that do not contribute towards the candidate's score. Therefore, the examination actually consists of 215 items, 200 of which are scored. The 15 pretest items are randomly distributed throughout the examination.

Series 10 exam. The passing score for the Series 9 is 70 percent and the passing score for the Series 10 is 70 percent. These are unchanged.

#### Availability of Content Outline

The current Series 9/10 content outline is available on FINRA's website, at [www.finra.org/brokerqualifications/exams](http://www.finra.org/brokerqualifications/exams). The revised Series 9/10 content outline will replace the current content outline on FINRA's website.

FINRA is filing the proposed rule change for immediate effectiveness. FINRA proposes to implement the revised Series 9/10 examination program on March 7, 2016. FINRA will announce the proposed rule change and the implementation date in a Regulatory Notice.

#### 2. Statutory Basis

FINRA believes that the proposed revisions to the Series 9/10 examination program are consistent with the provisions of Section 15A(b)(6) of the Act,<sup>21</sup> which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest, and Section 15A(g)(3) of the Act,<sup>22</sup> which authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. FINRA believes that the proposed revisions will further these purposes by updating the examination program to reflect changes to the laws, rules and regulations covered by the examination and to

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<sup>21</sup> 15 U.S.C. 78o-3(b)(6).

<sup>22</sup> 15 U.S.C. 78o-3(g)(3).

incorporate the functions and associated tasks currently performed by a General Securities Sales Supervisor.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The updated examination aligns with the functions and associated tasks currently performed by a General Securities Sales Supervisor and tests knowledge of the most current laws, rules, regulations and skills relevant to those functions and associated tasks. As such, the proposed revisions would make the examination more efficient and effective.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>23</sup> and paragraph (f)(1) of Rule 19b-4 thereunder.<sup>24</sup> At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the

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<sup>23</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>24</sup> 17 CFR 240.19b-4(f)(1).

Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FINRA-2015-058 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Robert W. Errett, Deputy Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2015-058. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld



from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2015-058 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>25</sup>

Robert W. Errett  
Deputy Secretary

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<sup>25</sup> 17 CFR 200.30-3(a)(12).



# **General Securities Sales Supervisor Qualification Examination (Series 9/10)**

## **Content Outline**

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## INTRODUCTION

The Series 9/10 exam is the General Securities Sales Supervisor Qualification Examination. The exam is developed and maintained by the Financial Industry Regulatory Authority (FINRA). This content outline provides a comprehensive guide to the topics covered on the Series 9/10 exam. The outline is intended to familiarize exam candidates with the range of subjects covered on the exam, as well as the depth of knowledge required. Sample items are also included to acquaint candidates with the types of multiple-choice items used on the exam. It is recommended that candidates refer to the content outline as part of their preparation to take the exam. Candidates are responsible for planning their course of study in preparation for the exam.

## PURPOSE OF THE EXAM

The Series 9/10 exam is designed to assess the competency of General Securities Sales Supervisors. It is intended to safeguard the investing public by helping to ensure that General Securities Sales Supervisors are competent to perform their jobs. Given this purpose, the Series 9/10 exam seeks to measure the degree to which each candidate possesses the knowledge, skills and abilities needed to perform the critical functions of a General Securities Sales Supervisor. For more information about the permissible activities of a General Securities Sales Supervisor, please see NASD Rule 1022(g), which is viewable in the FINRA Rule Manual through the following link: [www.finra.org](http://www.finra.org).

## ELIGIBILITY REQUIREMENTS

The candidate must be associated with and sponsored by a FINRA member firm or other applicable self-regulatory organization (SRO) member firm to be eligible to take the Series 9/10 exam. In order to register in this category, candidates must first qualify as a General Securities Representative (Series 7), United Kingdom Module of Series 7 (Series 17) or Canada Model of Series 7 (Series 37 or 38). For more information on eligibility requirements, please see NASD Rule 1022(g), which is viewable in the FINRA Rule Manual through the following link: [www.finra.org](http://www.finra.org) or other applicable SRO rules

## APPLICATION PROCEDURES

The FINRA member firm or other applicable SRO member firm that sponsors the applicant must file a Uniform Application for Securities Industry Registration or Transfer (Form U4) in the Central Registration Depository (CRD®) and request the General Securities Sales Supervisor position on the Form U4.

## STRUCTURE OF THE EXAM

The exam consists of 200 multiple-choice items (55 on the Series 9 and 145 on the Series 10), which are distributed among the four major content areas on the Series 9 and the four major content areas on the Series 10, listed in the table below.

**Job Functions and Number of Items by Job Function**

Part	Job Functions		Number of Items
Part 1: Series 10	Function 1	Supervise Associated Persons and Personnel Management Activities	28
	Function 2	Supervise the Opening and Maintenance of Customer Accounts	49
	Function 3	Supervise Sales Practices and General Trading Activities	52
	Function 4	Supervise Communications with the Public	16
Part 2:	Function 1	Supervise the Opening and	18

Series 9		Maintenance of Customer Options Accounts	
	Function 2	Supervise Sales Practices and General Options Trading Activities	19
	Function 3	Supervise Options Communications	5
	Function 4	Supervise Associated Persons and Personnel Management Activities	13
		Total	200

## DEVELOPMENT AND MAINTENANCE OF THE CONTENT OUTLINE AND EXAM

The Series 9/10 content outline was developed based on the results of a job analysis study of General Securities Sales Supervisors. The job analysis process included collecting data about the job functions, tasks and required knowledge of General Securities Sales Supervisors from a wide variety of firms using numerous data collection techniques.

Under the guidance of FINRA staff, a committee of industry representatives (Committee) writes, reviews and validates all exam items to ensure and sustain the job relevance of the exam. Exam items are subject to multiple reviews prior to inclusion on the exam, and each item links directly to a component of the content outline. Items vary in difficulty and complexity. Each item has only one correct or best answer.

The bank of items changes frequently as a result of amendments to, or the introduction of, government and SRO rules and regulations, changes in industry practice, and the introduction of new products. Exam items and their statistical performance are analyzed routinely by FINRA staff and the Committee to ensure relevance to the functions of a General Securities Sales Supervisor. **Candidates are responsible for keeping abreast of changes made to the applicable rules and regulations as the exam is updated when new rules are introduced and when the rules are amended.**

Candidates should read and answer all items as they apply to exchange-listed standardized options unless an item specifically asks about conventional over-the-counter (OTC) options. Also, unless an item is specifically worded to the contrary, all items involving calculations exclude commissions and other transactions cost considerations.

## ADMINISTRATION OF THE EXAM

The exam is administered via computer. A tutorial on how to take the exam via computer is provided prior to the exam. Each candidate's exam includes 15 additional, unidentified pretest items that do not contribute toward the candidate's score. The 15 items are randomly distributed throughout the exam with 5 pretest items appearing on the Series 9 and 10 pretest items on the Series 10. Therefore, each candidate's Series 9 exam consists of a total of 60 items (55 scored and 5 unscored), and each candidate's Series 10 exam consists of a total of 155 items (145 scored and 10 unscored). There is no penalty for guessing. Therefore, candidates should attempt to answer all items. Candidates will be allowed 1 hour and 30 minutes to complete the Series 9 exam and 4 hours to complete the Series 10 exam.

The Series 9 and Series 10 exams may be taken in any order at any time within the 120-day enrollment period. The test administrator will provide white boards/dry erase markers and basic electronic calculators to candidates, who must return these materials to the test center administrator at the end of the testing session. Some exam items may involve calculations. Only calculators provided by the test center administrators are allowed for use during the exam.

Candidates are not permitted to bring any reference material to their testing session. Severe penalties are imposed on candidates who cheat or attempt to cheat on FINRA-administered exams.

### **HOW THE EXAM IS SCORED**

Following a well-established process known as standard setting, FINRA determines the passing score for the examination based on a number of factors including industry trends, historical exam performance and evaluations of the content difficulty by a committee of industry professionals with the designated registration. For the Series 9 exam, the passing score is 70% and for the Series 10 exam, the passing score is 70%. This passing score reflects the competency needed to hold the designated registration.

### **EQUATING OF TEST SCORES**

All candidate test scores have been placed on a common scale using a statistical adjustment process known as equating. Equating scores to a common scale accounts for the slight variations in difficulty that may exist among the different sets of exam items that candidates receive. This allows for a fair comparison of scores and ensures that every candidate is held to the same passing standard regardless of which set of exam items he or she received.

### **CANDIDATES' EXAM RESULTS**

On the day of the exam, candidates will receive a report of their exam results both on screen and in paper format at the end of their exam session. The score report will indicate pass/fail status and a score profile indicating performance based on each major content area covered on the exam. It is recommended that candidates who fail the exam review the information provided on the score report, as they may want to focus on the areas on which they performed poorly when preparing to retake the exam. For security reasons, the exam and individual items are not available for review after taking the exam.

## PART 1: SERIES 10 CONTENT OUTLINE

### FUNCTION 1: Supervise Associated Persons and Personnel Management Activities

#### 1.1 Verify the qualifications of newly hired associated persons

##### KNOWLEDGE OF:

- Pre-hire investigations
- Form U4
- Form U5
- CRD
- Statutory disqualification
- Fingerprinting
- Appropriate registrations (e.g., State, FINRA)

##### FINRA Rules

- 3110—Supervision
- 4530—Reporting Requirements

##### FINRA By-Laws

- Article I—Definitions
  - Paragraph (rr): “Person associated with a member” or “associated person of a member”
- Article III—Qualifications of Members and Associated Persons
  - Section 1—Persons Eligible to Become Members and Associated Persons of Members
  - Section 2—Authority of Board to Adopt Qualification Requirements
  - Section 3—Ineligibility of Certain Persons for Membership or Association
  - Section 4—Definition of Disqualification
- Article V—Registered Representatives and Associated Persons
  - Section 1—Qualification Requirements
  - Section 2—Application for Registration
  - Section 3—Notification by Member to the Corporation and Associated Person of Termination; Amendments to Notification
  - Section 4—Retention of Jurisdiction

##### MSRB Rules

- G-4—Statutory Disqualifications
- G-5—Disciplinary Actions by Appropriate Regulatory Agencies; Remedial Notices by Registered Securities Associations

##### Securities Exchange Act of 1934

- Section 3(a)(39)—Definition of “Statutory Disqualification”
- Rule 17f-2—Fingerprinting of Securities Industry Personnel
- Rule 19h-1—Notice by a Self-Regulatory Organization of Proposed Admission to or Continuance in Membership or Participation or Association with a Member of Any Person Subject to a Statutory Disqualification, and Applications to the Commission for Relief Therefrom

#### 1.2 Review and maintain associated persons’ registrations and disclosures

##### KNOWLEDGE OF:

- Form U4 and U5 updates and disclosures
- Appropriate registration (e.g., state, FINRA, insurance licensing and appointments, investment advisory)
- Outside business activities (e.g., secondary employment, officer/directorships)
- Personal accounts
- Private security transactions
- Fiduciary appointments
- Political contributions/activities
- Disciplinary/criminal actions
- Noncash compensation (e.g., gifts and gratuities, third-party vendor compensation)

#### FINRA Rules

- 1250—Continuing Education Requirements
- 2263—Arbitration Disclosure to Associated Persons Signing or Acknowledging Form U4
- 2320(g)—Variable Contracts of an Insurance Company: Member Compensation
- 3110—Supervision
- 3220—Influencing or Rewarding Employees of Others
- 3270—Outside Business Activities of Registered Persons
- 5110(e)—Corporate Financing Rule—Underwriting Terms and Arrangements: Valuation of Non-Cash Compensation

#### MSRB Rules

- G-2—Standards of Professional Qualification
- G-3—Professional Qualification Requirements
  - G-3(a)(i): Municipal Securities Representative, Municipal Securities Sales Limited Representative and Limited Representative-Investment Company and Variable Contracts Products: Definitions
  - G-3(a)(ii)—Municipal Securities Representative, Municipal Securities Sales Limited Representative and Limited Representative-Investment Company and Variable Contracts Products: Qualification Requirements
  - G-3(b)(i)—Municipal Securities Principal; Municipal Fund Securities Limited Principal: Definition
  - G-3(b)(iv)(A)—Municipal Securities Principal; Municipal Fund Securities Limited Principal: Municipal Fund Securities Limited Principal: Definition
  - G-3(c)(i)—Municipal Securities Sales Principal: Definition
  - G-3(c)(ii)—Municipal Securities Sales Principal: Qualification Requirements
  - G-3(f)—Professional Qualification Requirements: Confidentiality of Qualification Examinations
  - G-3(i)—Professional Qualification Requirements: Continuing Education Requirements
- G-5—Disciplinary Actions by Appropriate Regulatory Agencies; Remedial Notices by Registered Securities Associations
- G-20—Gifts, Gratuities and Non-Cash Compensation
- G-24—Use of Ownership Information Obtained in Fiduciary or Agency Capacity
- G-28—Transactions with Employees and Partners of Other Municipal Securities Professional
- G-37—Political Contributions and Prohibitions on Municipal Securities Business

#### NASD Rules and Rule Interpretations

- IM-1000-2—Status of Persons Serving in the Armed Forces of the United States



IM-1000-3—Failure to Register Personnel  
1020 Series—Registration of Principals  
1030 Series—Registration of Representatives  
1070—Qualification Examinations and Waiver of Requirements  
1080—Confidentiality of Examinations  
2830(l)—Investment Company Securities: Member Compensation  
3040—Private Securities Transactions of an Associated Person  
3050—Transactions for or by Associated Persons

Incorporated NYSE Rules and Rule Interpretations

345.10—Employees-Registration, Approval, Records: Employees Required to be Registered or Approved

345.13— Employees-Registration, Approval, Records: Agreements

### **1.3 Supervise associated persons and take corrective actions as appropriate**

#### **KNOWLEDGE OF:**

- Arbitration
- Suspension and expulsion
- Disciplinary action
- Appropriate documentation

FINRA By-Laws

Article XII—Disciplinary Proceedings

FINRA Code of Arbitration Procedure

12000 Series—Code of Arbitration Procedure for Customer Disputes

13000 Series—Code of Arbitration Procedure for Industry Disputes

FINRA Procedural Rules

8000—Investigations and sanctions

8210—Provision of Information and Testimony and Inspection and Copying of Books

8310—Sanctions for Violation of the Rules

8320—Payment of Fines, Other Monetary Sanctions, or Costs; Summary Action for Failure to Pay

FINRA Rules

2263—Arbitration Disclosure to Associated Persons Signing or Acknowledging Form U4

3110—Supervision

3170—Tape Recording of Registered Persons by Certain Firms

MSRB Rules

G-27(c)(ii)—Supervision: Provisions Concerning Tape Recording of Conversations

G-27(d)— Supervision: Internal Inspections

G-27(f)— Supervision: Supervisory Control System

Securities Exchange Act of 1934

Rule 19h-1—Notice by a Self-Regulatory Organization of Proposed Admission to or Continuance in Membership or Participation or Association with a Member of Any Person Subject to a Statutory Disqualification, and Applications to the Commission for Relief Therefrom

### **1.4 Maintain marketplace and associated product and regulatory knowledge**

**KNOWLEDGE OF:**

- New product training
- Annual compliance meeting
- Firm and regulatory CE requirements
- Product and services training

FINRA Rules

- 1250—Continuing Education Requirements
- 2010—Standards of Commercial Honor and Principles of Trade
- 3110—Supervision

MSRB Rule

- G-3(i)—Professional Qualification Requirements: Continuing Education Requirements

**1.5 Conduct branch office inspections and manage the delegation of duties**

**KNOWLEDGE OF:**

- Appropriate registrations
- Supervision of OSJs, branch offices and unregistered locations
- Supervision of supervisory personnel
- Bank/broker-dealer regulatory requirements
- Relationships with vendors, clearing firms, back office, IT, facilities
- Appropriate signage
- Supervisory coverage (e.g., branch coverage due to resignation)

FINRA Rules

- 3110—Supervision
- 3120—Supervisory Control System
- 3160—Networking Arrangements Between Members and Financial Institutions

MSRB Rule

- G-27(d)—Supervision: Internal Inspections

Securities Investor Protection Act and SIPC Rules Thereunder

**FUNCTION 2: Supervise the Opening and Maintenance of Customer Accounts**

**2.1 Review new account documentation to determine if approval is appropriate**

**KNOWLEDGE OF:**

- Required account information and documentation
- Completeness and suitability (e.g., risk tolerance, financial situation and needs, time horizon)
- Know your customer (KYC) obligations
- Customer identification program (CIP) requirements
- Anti-money laundering (AML) standards
- Bank secrecy reporting requirements
- Account types and special considerations (e.g., IRA, Trust, Discretionary)
- Account disclosures
- Account documentation and record retention

FINRA Rules

- 2060—Use of Information Obtained in Fiduciary Capacity
- 2090—Know Your Customer
- 2111—Suitability
- 2130—Approval Procedures for Day-Trading Accounts
- 2140—Interfering with the Transfer of Customer Accounts in the Context of Employment Disputes
- 2270—Day-Trading Risk Disclosure Statement
- 3250—Designation of Accounts
- 3110—Supervision
- 3310—Anti-Money Laundering Compliance Program
- 4510 Series —Books and Records Requirements
- 11870—Customer Account Transfer Contracts

MSRB Rules

- D-12—“Municipal Fund Security”
- G-8(a)(xi)—Books and Records to be Made by Brokers, Dealers, Municipal Securities Dealers, and Municipal Advisors: Description of Books and Records Required to be Made: Customer Account Information
- G-15(a)—Confirmation, Clearance, Settlement and Other Uniform Practice Requirements with Respect to Transactions with Customers: Customer Confirmations
- G-19—Suitability of Recommendations and Transactions
- G-24—Use of Ownership Information Obtained in Fiduciary or Agency Capacity
- G-26—Customer Account Transfers
- G-27(c)(i)(G)(1)—Supervision: Written Supervisory Procedures: General Provisions (Opening of Accounts)
- G-28—Transactions with Employees and Partners of Other Municipal Securities Professionals
- G-32(a)—Disclosure in Connection with Primary Offerings: Customer Disclosure Requirements
- G-41—Anti-Money Laundering Compliance Program
- G-47—Time of Trade Disclosure
- G-48—Transactions with Sophisticated Municipal Market Professionals

NASD Rule

- 2510—Discretionary Accounts

Securities Exchange Act of 1934

- Supervision Rule 15c1-7—Discretionary Accounts

USA PATRIOT Act

- Section 326—Verification of Identification

**2.2 Review customer account transactions, distributions and account transfers for appropriateness**

**KNOWLEDGE OF:**

- Suitability of recommendations
- Investment objectives and strategies
- Frequency and size of transaction
- Concentration in particular securities/sectors
- Discretionary transactions (e.g., discretionary accounts, time and place discretion)

- Funds and securities received and delivered (e.g., deposits, physical stock, restricted securities, ACATS, journals, DVP/RVP)
- Disbursements (e.g., third party, OFAC, suspicious activity reports)
- Tax implications of transactions
- Cost basis

FINRA Rules

- 2111—Suitability
- 2140—Interfering with the Transferring of Customer Accounts in the Context of Employment Disputes
- 2310—Direct Participation Programs
- 2320(b)—Variable Contracts of an Insurance Company: Definitions
- 11870—Customer Account Transfer Contracts
- 11550—Assignments and Powers of Substitution; Delivery of Registered Securities
- 11860—COD Orders

NASD Rules

- 2510(d) —Discretionary Accounts: Exceptions

MSRB Rules

- D-10—“Discretionary Account”
- G-8—Books and Records to be Made by Brokers, Dealers, Municipal Securities Dealers, and Municipal Advisors
- G-12—Uniform Practice
- G-19—Suitability of Recommendations and Transactions
- G-22(b)—Control Relationships: Discretionary Accounts
- G-26—Customer Account Transfers
- G-30—Prices and Commissions
- G-48—Transactions with Sophisticated Municipal Market Professionals

Securities Act of 1933

- Rule 144—Persons Deemed Not to Be Engaged in a Distribution and Therefore Not Underwriters
- Rule 144A—Private Resales of Securities to Institutions

**2.3 Review margin accounts to confirm proper handling and timely adherence to margin requirements**

**KNOWLEDGE OF:**

- Regulation T (e.g., SMA, margin calls, extensions, loans)
- Initial/maintenance minimum margin requirements
- Portfolio margining
- Day trading
- Margin eligible securities
- Extension of credit

FINRA Rules

- 4210—Margin Requirements
- 11860—COD Orders
- 11740—Marking to the Market

Federal Reserve Board Regulation T- Credit by Brokers and Dealers (“Regulation T”)

Securities Exchange Act of 1934  
Rule 15c2-1—Hypothecation of customer securities

## 2.4 **Oversee administrative maintenance of customers' accounts**

### **KNOWLEDGE OF:**

- Reconfirmation of customer information
- Address change requirements (e.g., foreign countries, POAs, P.O. Boxes address requests)
- Name/designation changes
- Privacy of customer information (e.g., Regulation S-P)
- Control and custody of customer funds and securities
- Statement of financial condition
- Confirmations and statements
- Record retention of documentation

### FINRA Rules

2232—Customer Confirmations  
2261—Disclosure of Financial Condition  
3110—Supervision  
3150—Holding of Customer Mail  
4510 Series—Books and Records Requirements  
11550—Assignments and Powers of Substitutions; Delivery of Registered Securities  
11574—Certificate in Name of Deceased Person, Trustee, etc.

### MSRB Rules

G-8—Books and Records to be Made by Brokers, Dealers, Municipal Securities Dealers, and Municipal Advisors  
G-9—Preservation of Records  
G-15—Confirmation, Clearance, Settlement and Other Uniform Practice Requirements with Respect to Transactions with Customers  
G-32—Disclosures In Connection With Primary Offerings

### NASD Rule

2340—Customer Account Statements

### NYSE Rule

409—Statements of Accounts to Customers

### Securities Exchange Act of 1934

Rule 15c3-3(h)—Customer Protection—Reserves and Custody of Securities  
Rule 17a-3—Records to be Made by Certain Exchange Members, Brokers and Dealers  
Rule 17a-4—Records to be Preserved by Certain Exchange Members, Brokers and Dealers  
Rule 17a-5—Reports to be Made by Certain Brokers and Dealers  
SEC Regulation S-P—Privacy of Consumer Financial Information and Safeguarding Personal Information

## **FUNCTION 3: Supervise Sales Practices and General Trading Activities**

### **3.1 Identify and review customer complaints and take appropriate actions**

**KNOWLEDGE OF:**

- Acknowledgement/reporting requirements
- Retention requirements

FINRA Rules

3110(b)(5) —Supervision: Written Procedures: Review of Customer Complaints  
4513—Records of Written Customer Complaints  
4530—Reporting Requirements

MSRB Rules

G-8(a)—Books and Records to be Made by Brokers, Municipal Securities Dealers, and Municipal Advisors: Description of Books and Records Required to be Made  
G-8(a)(xii)—Books and Records to be Made by Brokers, Municipal Securities Dealers, and Municipal Advisors: Description of Books and Records Required to be Made: Customer Complaints  
G-9(a)—Preservation of Records: Records to be Preserved for Six Years  
G-10—Delivery of Investor Brochure  
G-27(c)(i)(B)—Supervision: Written Supervisory Procedures: General Provisions (Procedures for Handling Customer Complaints)

**3.2 Oversee the correction of trade errors**

**KNOWLEDGE OF:**

- Cancel and rebills
- Error accounts
- Inappropriate practices (e.g., parking, unauthorized trades, unapproved discretion)

FINRA Rules

2010—Standards of Commercial Honor and Principles of Trade  
2020—Use of Manipulative, Deceptive or Other Fraudulent Devices  
5320—Prohibition Against Trading Ahead of Customer Orders  
11890—Clearly Erroneous Transactions

**3.3 Review daily trade activity for completeness of records or exceptions (e.g., orders, routing, and execution)**

**KNOWLEDGE OF:**

- Prohibited activities
- Patterns and trends (e.g., unusual price movements, marking the close)
- Short sales/Regulation SHO
- Solicited/unsolicited order violations
- Trading in special accounts (e.g., managed)
- Complex product trades
- Trading categories (e.g., IPOs, block, complex product, restricted securities)
- Excessive commissions and markups
- Conflicts of interest
- Trading halts
- Market access

FINRA Rules

- 2010—Standards of Commercial Honor and Principles of Trade
- 2020—Use of Manipulative, Deceptive or Other Fraudulent Devices
- 2040 – Payments to Unregistered Persons
- 2121—Fair Prices and Commissions
- 2122— Charges for Services Performed
- 2342—“Breakpoint” Sales
- 3110—Supervision
- 4330—Customer Protection—Permissible Use of Customers’ Securities
- 5210—Publication of Transactions and Quotations
- 5220—Offers at Stated Prices
- 5230—Payments Involving Publications that Influence the Market Price of a Security
- 5240—Anti-Intimidation/Coordination
- 5270—Front Running of Block Transactions
- 5280—Trading Ahead of Research Reports
- 5310—Best Execution and Interpositioning
- 5320—Prohibition Against Trading Ahead of Customer Orders
- 6120—Trading Halts
- 6121—Trading Halts Due to Extraordinary Market Volatility
- 6140—Other Trading Practices
- 6190—Compliance with Regulation NMS Plan to Address Extraordinary Market Volatility
- 6240—Prohibition from Locking or Crossing Quotations in NMS Stocks
- 6380A—Transaction Reporting
- 11810—Buy-in Procedures and Requirements

Insider Trading and Securities Fraud Enforcement Act of 1988  
Section 3—Civil Penalties of Controlling Persons for Illegal Insider Trading by Controlled Persons

Investment Advisers Act of 1940  
Rule 205—Investment Advisory Contracts

MSRB Rules

- D-9—“Customer”
- G-13—Quotations Relating to Municipal Securities
- G-14—Reports of Sales or Purchases
- G-17—Conduct of Municipal Securities and Municipal Advisory Activities
- G-19—Suitability of Recommendations and Transactions
- G-25(b)—Improper Use of Assets: Guaranties
- G-25(c)—Improper Use of Assets: Sharing Account
- G-28—Transactions with Employees and Partners of Other Municipal Securities Professionals
- G-30—Prices and Commissions
- G-31—Reciprocal Dealings with Municipal Securities Investment Companies

NASD Rules

- 2510(a)—Discretionary Accounts: Excessive transactions
- 2830—Investment Company Securities
- 3050—Transactions for or by Associated Persons

Securities Act of 1933

- Rule 144—Persons Deemed Not to be Engaged in a Distribution and Therefore Not Underwriters
- Rule 144A—Private Resale of Securities to Institutions
- Rule 145—Reclassification of Securities, Mergers, Consolidations and Acquisitions of Assets

SEC Regulation S—Rules Governing Offers and Sales Made Outside the United States without Registration Under the Securities Act of 1933

Securities Exchange Act of 1934

Section 9—Prohibition Against Manipulation of Security Prices

Section 9(a)(1) (Misleading appearance of active trading)

Section 9(a)(2) (Inducing purchase or sale by others)

Section 9(a)(3) (Dissemination of information as to rise or fall of securities prices)

Section 9(a)(4) (Making false or misleading statements)

Section 9(a)(5) (Dissemination of information for consideration)

Section 9(a)(6) (Pegging, fixing or stabilizing prices)

Rule 10b-1— Prohibition of Use of Manipulative or Deceptive Devices or Contrivances with Respect to Certain Securities Exempted from Registration

Rule 10b-3—Employment of Manipulative and Deceptive Devices by Brokers or Dealers

Rule 10b-5—Employment of Manipulative and Deceptive Devices

Rule 10b5-1—Trading “On the Basis Of” Material Nonpublic Information in Insider Trading Cases

Rule 10b5-2—Duties of Trust or Confidence in Misappropriation Insider Trading Cases

Rule 10b-10—Confirmation of Transactions

Rule 10b-18—Purchases of Certain Equity Securities by the Issuer and Others

Rule 11d1-1— Exemption of Certain Securities From Section 11(d)(1)

Rule 14e-3—Transactions in Securities on the Basis of Material, Nonpublic Information in the Context of Tender Offers

Rule 14e-4—Prohibited Transactions in Connection with Partial Tender Offers

Section 15(g)—Registration and Regulation of Brokers and Dealers (Written policies and procedures relating to misuse of material, non-public information)

Rule 15c1-2—Fraud and Misrepresentation

Rule 15c1-3—Misrepresentation by Brokers, Dealers and Municipal Securities Dealers as to Registration

Rule 15c3-5—Risk Management Controls for Brokers or Dealers with Market Access

SEC Regulation NMS—Regulation of the National Market System

Rule 600—NMS Security Designation and Definitions

Rule 602—Dissemination of Quotations in NMS Securities

Rule 604—Display of Customer Limit Orders

Rule 605—Disclosure of Order Execution Information

Rule 606—Disclosure of Order Routing Information

Rule 607—Customer Account Statements

Rule 610—Access to Quotations

Rule 611—Order Protection Rule

Rule 612—Minimum Pricing Increments

SEC Regulation SHO—Regulation of Short Sales

**3.4 Review trading activity in employees’ internal and external accounts**

**KNOWLEDGE OF:**

- Restricted securities list
- Borrowing from and lending to customers
- Sharing in accounts



- Prohibited activities (*e.g.*, front running, piggy-backing, pegging the market, pump and dump, IPO purchases)

FINRA Rules

- 2150—Improper Use of Customers' Securities or Funds; Prohibition Against Guarantees and Sharing in Accounts
- 3240—Borrowing From or Lending To Customers
- 5130—Restrictions on the Purchase and Sale of Initial Equity Public Offerings
- 5270—Front Running of Block Transactions
- 6130—Transactions Related to Initial Public Offerings
- 6140—Other Trading Practices

MSRB Rule

- G-25—Improper Use of Assets

NASD Rule

- 3050—Transactions for or by Associated Persons

**3.5 Supervise sales practices of products**

**KNOWLEDGE OF:**

- Variable annuities
- Fixed income products
- Equities (*e.g.*, low price securities, thinly traded securities)
- Alternative investments
- Banking products (*e.g.*, FDIC insurance, disclosures)
- Managed products
- Hedge funds
- Switching of packaged products (*e.g.*, UITs, ETFs, mutual funds, closed-end funds)
- Structured products
- Municipal securities (*e.g.*, 529 college savings plans, general obligation bonds)
- Direct participation programs

FINRA Rules

- 2111.05(a)—Suitability: Components of Suitability Obligations
- 2310—Direct Participation Programs
- 2320—Variable Contracts of an Insurance Company
- 3110—Supervision
- 3120—Supervisory Control System
- 5130—Restrictions on the Purchase and Sale of Initial Equity Public Offerings
- 5131—New Issue Allocations and Distributions

MSRB Rules

- G-19—Suitability of Recommendations and Transactions
- G-21—Advertising
- G-32—Disclosure In Connection With Primary Offerings

NASD Rule

- 2830(b)—Investment Company Securities: Definitions

Securities Exchange Act of 1934

Section 3—Definitions and Application of Title

Section 3(a)(10)—Definition of Security

Section 3(a)(11)—Definition of Equity Security

Rule 3a11-1—Definition of the Term “Equity Security”

Section 3(a)(12)—Definition of Exempted Security

Rule 3b-5—Non-Exempt Securities Issued Under Governmental Obligations

Section 15(c)(2) —Registration and Regulation of Brokers and Dealers

Rule 15c2-8—Delivery of Prospectus

Securities Act of 1933

Section 3(b)—Exempted Securities: Additional Exemptions

Section 4(2) Transactions by an Issuer Not Involving Any Public Offerings

Section 4(6) Transactions Involving Offers or Sale by an Issuer Solely to One or More Accredited Investors Up To the Section 3(b) Maximum

Rule 144—Persons Deemed Not to Be Engaged in a Distribution and Therefore Not Underwriters

SEC Regulation A—Conditional Small Issues Exemption

SEC Regulation D—Rules Governing the Limited Offer and Sale of Securities without Registration Under the Securities Act of 1933

Rule 501—Definitions and Terms Used in Regulation D

Rule 502—General Conditions To be Met

Rule 503—Filing of Notice of Sales

Rule 504—Exemption for Limited Offerings and Sales of Securities Not Exceeding \$1,000,000

Rule 505—Exemption for Limited Offers and Sales of Securities Not Exceeding \$5,000,000

Rule 506—Exemption for Limited Offers and Sales Without Regard to Dollar Amount of Offering

Investment Company Act of 1940

Section 2—Definitions

Section 3—Definition of Investment Company

Section 4—Classification of Investment Companies

Section 5—Sub-Classification of Management Companies

Section 8—Registration of Investment Companies

Section 11—Offers to Exchange Securities

Section 12—Functions and Activities of Investment Companies

Rule 12b-1—Distribution of Shares by Registered Open-End Management Investment Company

Section 13—Changes in Investment Policy

Section 19—Payments or Distributions

Rule 19a-1—Written Statement to Accompany Dividend Payments by Management Companies

Rule 19b-1—Frequency of Distribution of Capital Gains

Section 22—Distribution, Redemption, and Repurchase of Securities; Regulations by Securities Associations

Section 22(c)— Distribution, Redemption, and Repurchase of Securities (Conflicting rules of Commission and Associations)

Rule 22c-1—Pricing of Redeemable Securities for Distribution, Redemption and Repurchase

Section 22(d)— Distribution, Redemption, and Repurchase of Securities (Persons To and Through Whom Redeemable Securities May be Sold)

Rule 22d-1—Exemption from Section 22(d) to Permit Sales of Redeemable Securities at Prices Which Reflect Sales Loads Set Pursuant to a Schedule

Rule 22d-2—Exemption from Section 22(d) For Certain Registered Separate Accounts  
Section 22(e)— Distribution, Redemption, and Repurchase of Securities (Suspension of Right of Redemption or Postponement of Date of Payment)

Rule 22e-1—Exemption from Section 22(e) During Annuity Payment Period of Variable Annuity Contracts Participating in Certain Registered Separate Accounts

Section 23—Closed-End Companies

Section 35—Unlawful Representations and Names

Section 37—Larceny and Embezzlement

Trust Indenture Act of 1939

Section 305—Securities Required To Be Registered Under Securities Act

Section 306—Securities Not Registered Under Securities Act

Section 307—Qualification of Indentures Covering Securities Not Required To Be Registered

Section 309—When Qualification Becomes Effective; Effect of Qualification

## **FUNCTION 4: Supervise Communications with the Public**

### **4.1     Oversee telemarketing practices**

#### **KNOWLEDGE OF:**

- Do-not-call list
- Time of day restrictions

FINRA Rule

3230—Telemarketing

MSRB Rule

G-39—Telemarketing

### **4.2     Review retail communications and determine appropriate approval**

#### **KNOWLEDGE OF:**

- Definition of retail communication
- Types of retail communication (e.g., social media)
- Content standards (e.g., fair and balanced; identify red flags (guarantees, misleading statements, performance); professional certifications and designations)
- Required approvals and filings (e.g., principal, SRO)
- Product specific requirements for communications with the public
- Appropriate disclosures
- Requirements for public appearances (e.g., seminar activities, appearances on public forums)

FINRA Rules

2210—Communications with the Public

2250 Series—Proxy Materials

2260 Series—Disclosures

MSRB Rules

G-21(a)—Advertising: General Provisions

G-21(b)—Advertising: Professional Advertisements

G-21(c)—Advertising: Product Advertisements

G-21(e)—Advertising: Municipal Fund Security  
G-27(e)—Supervision: Review of Correspondence

NYSE Rule  
472—Communications with the Public

Securities Act of 1933  
Rule 135a—Generic Advertising

Securities Investor Protection Act and SIPC Rules Thereunder

#### **4.3 Review incoming and outgoing correspondence including approval where required**

##### **KNOWLEDGE OF:**

- Definition of correspondence
- Content standards
- Appropriate disclosures, disclaimers, accuracy
- Electronic communications to customers and prospects

FINRA Rules  
2210—Communications with the Public  
2250—Proxy Materials  
2260—Disclosures

MSRB Rules  
G-21(a)—Advertising: General Provisions  
G-21(b)—Advertising: Professional Advertisements  
G-21(c)—Advertising: Product Advertisements  
G-21(e)—Advertising: Municipal Fund Security  
G-27(e)—Supervision: Review of Correspondence

NYSE Rule  
472—Communications With The Public

Securities Act of 1933  
135a—Generic Advertising

#### **4.4 Review institutional communication and determine appropriate approval**

##### **KNOWLEDGE OF:**

- Definition of institutional communication
- Types of institutional communication (e.g., electronic)
- Content standards
- Appropriate disclosures

FINRA Rules  
2210—Communications with the Public  
2250—Proxy Materials  
2260—Disclosures

MSRB Rules

- G-21(a)—Advertising: General Provisions
- G-21(b)—Advertising: Professional Advertisements
- G-21(c)—Advertising: Product Advertisements
- G-21(e)—Advertising: Municipal Fund Security
- G-27(e)—Supervision: Review of Correspondence

NYSE Rule

- 472—Communications With The Public

Securities Act of 1933

- Rule 135a—Generic Advertising

## **PART 2: SERIES 9 CONTENT OUTLINE**

### **FUNCTION 1—Supervise the Opening and Maintenance of Customer Options Accounts**

#### **1.1 Review new account documentation to determine if approval is appropriate**

##### **KNOWLEDGE OF:**

- Different classifications of customers (e.g., institutional, retail)
- Account types and special considerations (e.g., IRA, Trust, Discretionary/Fiduciary)
- Anti-money laundering (AML) standards
- Customer identification program (CIP) requirements
- Due Diligence and Know Your Customer (KYC) requirements
- Options disclosure document delivery
- Special statement for uncovered writers and approval requirements
- Minimum net equity requirement for approval of uncovered options accounts
- Customer verification
- Discretionary account acceptance review by the designated registered options principal
- Exception approval by the designated registered options principals
- Record retention of account documentation

##### **CBOE Rules**

- 4.20—Anti-Money Laundering Compliance Program
- 9.7—Opening of Accounts
- 9.8(a)—Supervision of Accounts: Duty to Supervise
- 9.10(a)—Authorization and Approval Required
- 9.10— Discretionary Accounts
- 9.14—Addressing of Communications to Customers
- 9.15—Delivery of Current Options Disclosure Documents
- 12.3—Margin Requirements
- 12.4(b)—Portfolio Margin—Eligible Participants
- 12.8—Guaranteed Accounts
- Chapter XV—Records, Reports and Audits (Rules 15.1 -15.12)

##### **FINRA Rules**

- 2090—Know Your Customer
- 2111—Suitability
- 2360(b)(7)—Options: Requirements: Limit on Uncovered Short Positions
- 2360(b)(11)— Options: Requirements: Delivery of Current Disclosure Document
- 2360(b)(16)— Options: Requirements: Opening of Accounts
- 2360(b)(18)— Options: Requirements: Discretionary Accounts
- 2360(b)(20)— Options: Requirements: Supervision of Accounts
- 3310—Anti-Money Laundering Compliance Program
- 4210—Margin Requirements
- 4510 Series—Books and Records Requirements

##### **NYSE Rule**

- 408—Discretionary Power in Customers' Accounts

Securities Exchange Act of 1934  
Rule 15c1-7—Discretionary Accounts  
SEC Regulation S-P—Privacy of Consumer Financial Information and Safeguarding Personal Information

USA PATRIOT Act  
Section 326—Verification of Identification

**1.2 Review recommended customer options trading activities to determine if strategies are suitable and within approved levels**

**KNOWLEDGE OF:**

- Sales activities of registered persons
- Suitability of option recommendations
- Investment strategies

CBOE Rules  
9.8/.01 and .02—Supervision of Accounts  
9.9—Suitability of Recommendations

FINRA Rules  
2111—Suitability  
2360—Options

**1.3 Review margin accounts to confirm proper handling and timely adherence to margin requirements**

**KNOWLEDGE OF:**

- Margin implications associated with various strategies
- Margin eligible securities
- Initial/maintenance minimum margin requirements
- Special margin requirements for pattern day traders

CBOE Rules  
12.3—Margin Requirements  
12.4—Portfolio Margin  
12.10—Margin Required Is Minimum  
15.8A—Risk Analysis of Portfolio Margin Accounts

FINRA Rule  
4210—Margin Requirements

Securities Exchange Act of 1934  
Section 7—Margin Requirements  
Section 8—Restrictions on Borrowing by Members, Brokers and Dealers

Federal Reserve Board Regulation T—Credit by Brokers and Dealers (“Regulation T”)

**FUNCTION 2—Supervise Sales Practices and General Options Trading Activities**

**2.1 Identify and review customer complaints and take appropriate actions**

**KNOWLEDGE OF:**

- Acknowledgement/reporting requirements
- Record retention and segregation requirements
- Regulatory reporting of customer complaints

CBOE Rule

9.23—Customer Complaints

FINRA Rules

2360(b)(17)—Options: Requirements: Maintenance of records

3110—Supervision

4513—Records of Written Customer Complaints

4530—Reporting Requirements

**2.2 Oversee the correction of options trade errors**

**KNOWLEDGE OF:**

- Cancel and rebills
- Error accounts

CBOE Rules

9.19—Assuming Losses

6.25—Nullification and Adjustment of Options Transactions including Obvious Errors

6.52—Price Binding Despite Erroneous Report

FINRA Rule

11890—Clearly Erroneous Transactions

**2.3 Review daily trade activity for completeness of records or exceptions (e.g., orders, routing, and execution)**

**KNOWLEDGE OF:**

- Large option position reporting
- Position and exercise limits
- Order origin codes
- Prohibited activities
- Discretionary trading
- Best execution
- Order marking
- Trades serving no economic purpose

Insider Trading and Securities Fraud Enforcement Act of 1988

Section 3—Civil Penalties of Controlling Persons for Illegal Insider Trading by Controlled Persons

CBOE Rules

4.1—Just and Equitable Principle of Trade



4.7—Manipulation  
4.11—Position Limits  
4.12—Exercise Limits  
4.18—Prevention of the Misuse of Material, Non-public Information  
6.24—Required Order Information  
6.51—Reporting Duties  
9.17—Transactions of certain customers  
9.18—Prohibition Against Guarantees and Sharing in Accounts  
9.19—Assuming Losses  
9.25—Borrowing From or Lending to Customers  
24.4—Position Limits for Broad-Based Index Options  
24.4A—Position Limits for Industry Index Options  
24.5—Exercise Limits  
24.18—Exercise of American-Style Index Options

#### FINRA Rules

2020—Use of Manipulative, Deceptive or Other Fraudulent Devices  
2360(b)(3)— Options: Requirements: Position Limits  
2360(b)(4)— Options: Requirements: Exercise Limits  
3110—Supervision  
3120—Supervisory Control System  
5310—Best Execution and Interpositioning

#### Securities Exchange Act of 1934

Section 9—Prohibition Against Manipulation of Security Prices  
Section 9(a)(1)—Misleading Appearance of Active Trading  
Section 9(a)(2)—Inducing Purchase or Sale by Others  
Section 9(a)(3)—Dissemination of Information as to Rise or Fall of Securities Prices  
Section 9(a)(4)—Making False or Misleading Statements  
Section 9(a)(5)—Dissemination of Information for Consideration  
Section 9(a)(6)—Pegging, Fixing or Stabilizing Prices  
Section 9(e)—Liability for Unlawful Acts or Transactions  
Section 10(b)—Regulation of the Use of Manipulative and Deceptive Devices  
Rule 10b-3—Employment of Manipulative and Deceptive Devices by Brokers or Dealers  
Rule 10b-5—Employment of Manipulative or Deceptive Devices  
Rule 10b5-1—Trading on the Basis of Material Non-Public Information in Insider Trading Cases  
Rule 10b5-2—Duties of Trust or Confidence in Misappropriation Insider Trading Cases  
Rule 10b-18—Purchases of Certain Equity Securities by the Issuer and Others  
Section 15(g)—Registration and Regulation of Brokers and Dealers—Written Policies and Procedures Relating to Misuse of Material, Non-Public Information

## 2.4 Monitor the general operational process of options trades

### KNOWLEDGE OF:

- Electronic order routing/execution
- Aggregation of accounts for reporting position limits, exercise limits, and large positions
- Exercise notices (*e.g.*, contrary exercise advice)
- Impact of options assignments
- Corporate actions

- Options Clearing Corporation (OCC) assignment procedure and firm/market-maker/customer assignment
- Assignment allocation methods (e.g., first-in-first-out (FIFO), random)
- Customer notification of allocation method
- Delivery and payment/settlement

CBOE Rules

- 4.11 Position Limits
- 4.12 Exercise Limits
- 4.13—Reports Related to Position Limits
- 4.16—Other Restrictions on Options Transactions and Exercises
- 5.7—Adjustments
- 6.51— Reporting Duties
- 11.1—Exercise of Option Contracts
- 11.2—Allocation of Exercise Notices
- 11.3—Delivery and Payment

FINRA Rules

- 2360(b)(3)—Options: Requirements: Position Limits
- 2360(b)(4)—Options: Requirements: Exercise Limits
- 2360(b)(5)—Options: Requirements: Reporting of Options Positions
- 2360(b)(8)—Options: Requirements: Restrictions on Option Transactions and Exercises
- 2360(b)(23)—Options: Requirements: Tendering Procedures for Exercise of Options
- 11860—COD Orders

## **FUNCTION 3—Supervise Options Communications**

### **3.1 Review options retail communications and determine appropriate approval**

**KNOWLEDGE OF:**

- Definition of retail communication
- Types of retail communication (e.g., social media)
- Content standards (e.g., fair and balanced; identify red flags (guarantees, misleading statements, performance); professional certifications and designations)
- Requirements for trading programs and option worksheets
- Appropriate disclosures
- Requirements for public appearances (e.g., seminar activities, appearances on public forums)

CBOE Rule

- 9.21—Options Communications

FINRA Rules

- 2210—Communications with the Public
- 2220—Options Communications
- 2260—Disclosures

NASD Rule

- 2711(i)—Supervisory Procedures

Securities Act of 1933  
Rule 135a—Generic Advertising

**3.2 Review incoming and outgoing options correspondence including approval where required**

**KNOWLEDGE OF:**

- Definition of correspondence
- Content standards
- Appropriate disclosures

CBOE Rule  
9.21—Options Communications

FINRA Rules  
2210—Communications with the Public  
2220—Options Communications  
2260—Disclosures

NASD Rule  
2711(i)—Supervisory Procedures

Securities Act of 1933  
Rule 135a—Generic Advertising

**3.3 Review options institutional communication and determine appropriate approval**

**KNOWLEDGE OF:**

- Definition of institutional communication
- Types of institutional communication (e.g., electronic)
- Content standards
- Appropriate disclosures

CBOE Rule  
9.21—Options Communications

FINRA Rules  
2210—Communications with the Public  
2220—Options Communications  
2260—Disclosures

NASD Rule  
2711(i)—Supervisory Procedures

Securities Act of 1933  
Rule 135a—Generic Advertising

**FUNCTION 4—Supervise Associated Persons and Personnel Management Activities**

**4.1 Maintain marketplace and associated product and regulatory knowledge**

**KNOWLEDGE OF:**

- Terms and definitions of sophisticated options products and strategies
- Trading rotation and fast markets
- Trading practices and roles of market participants
- Trading Halts
- Different order types and trading strategies
- Calculations of profit, loss, breakeven points, and economics of positions
- Tax implications of options transactions

**CBOE Rules**

- 6.2—Trading Rotations
- 6.2A—Rapid Opening System
- 6.2B—Hybrid Opening System
- 6.3—Trading Halts
- 6.45—Priority of Bids and Offers—Allocation of Trades
- 6.53—Certain Types of Orders Defined
- 6.54—Accommodation Liquidations (Cabinet Trades)
- 6.70—Floor Broker Defined
- 6.73—Responsibilities of Floor Brokers
- 8.1—Market Maker Defined
- 8.80—DPM Defined
- 8.8—Restriction on Acting as Market Maker and Floor Broker
- 8.85—DPM Obligations

**FINRA Rules**

- 5260—Prohibition on Transactions, Publication of Quotations, or Publication of Indications of Interest During Trading Halts
- 2360(b)(24)—Options: Requirements: Options Transactions and Reports by Market Makers in Listed Securities
- 6120—Trading Halts

## SAMPLE ITEMS

The following sample items are included to provide an introduction to the basic formats of multiple-choice items used on the exam. The sample items do not reflect the difficulty level of actual exam items. Candidates who familiarize themselves with these formats may be able to improve their test-taking skills so that their performance on the exam will better reflect their knowledge of the areas tested.

**Closed-Stem:** The stem (the part that poses the question) is a complete sentence, and thus concludes with a question mark. The options (answer choices) may be complete or incomplete sentences.

**Example:** Which of the following items is considered retail communication?

- (A) Electronic communication distributed to institutional investors on a daily basis
- (B) Social media communication with institutional investors on a daily basis
- (C) Written communication distributed to 10 retail investors within a 30-day period
- (D) Written communication distributed to more than 25 retail investors within a 30-day period\*

**Open-Stem (Sentence Completion):** The stem is an incomplete statement, and the options represent conclusions to the sentence.

**Example:** A qualified person must inspect an office of supervisory jurisdiction (OSJ) at least:

- (A) quarterly.
- (B) annually.\*
- (C) every two years.
- (D) every three years.

**Except or Not:** The "**except**" case is used when the task is to select the response option that is an exception to the principle or rule stated in the stem. If it is clearly more straightforward or less awkward to use "**not**," rather than "**except**," this is done. In either case, the stem may be open or closed.

**Example:** Listed equity options would **not** be adjusted for which of the following actions in the underlying security?

- (A) A 2-for-1 stock split
- (B) A 1-for-5 reverse stock split
- (C) A stock dividend of 5%
- (D) A cash dividend of \$0.50\*

## REFERENCES

Listed below are government and SRO websites that provide information about rules and regulations and other information candidates may find useful in preparing for the exam. In addition to information about rules, the SRO may publish glossaries of terms, explanations of securities products, and compliance procedures. Candidates are encouraged to refer to the SRO websites for information memos or regulatory notices concerning amendments to rules and the announcement of new rules that may relate to the exam. Candidates can purchase copies of federal securities laws and SEC rules and regulations through the network of federal government printing offices. However, some of this information may be available on the SRO and pertinent federal government (e.g., the SEC) websites. It is recommended that candidates refer to the content outline as part of their preparation to take the exam. Candidates are responsible for planning their course of study in preparation for the exam. FINRA produces only the content outline and is not involved with, nor does it endorse, any particular course of study.

**Chicago Board Options Exchange**  
[www.cboe.com](http://www.cboe.com)

**Financial Industry Regulatory Authority (FINRA)**  
[www.finra.org](http://www.finra.org)

**Municipal Securities Rulemaking  
Board Rule Book**  
[www.msrb.org](http://www.msrb.org)

**Options Clearing Corporation**  
[www.theocc.com](http://www.theocc.com)  
**The Options Industry Council**  
[www.888options.com](http://www.888options.com)

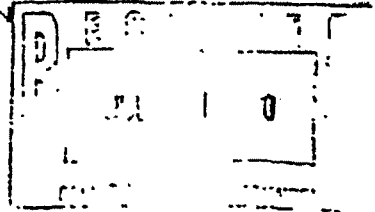
**Securities and Exchange Commission  
Office of Investor Education and Advocacy**  
[www.sec.gov](http://www.sec.gov)

**Securities Industry/Regulatory Council  
on Continuing Education**  
[www.cecouncil.com](http://www.cecouncil.com)



DIVISION OF  
MARKET REGULATION

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NASD Regulation, Inc.  
1735 K Street, N. W.  
Washington, D.C. 20006-1500

Re: Procedure for Filings Relating to Qualification Examinations

Dear Mr. Adkins: <sup>Alden</sup>

I am writing to inform you of a change in the filing requirements for proposed rule changes involving qualification examinations for associated persons. In the past, the Division required the SROs to file question banks for new examinations for Commission approval pursuant to Section 19(b)(2) of the Exchange Act. The Division also required SROs to file questions being added to the question bank for Commission approval.

The Division has decided that it is no longer necessary for SROs to file new exam question banks for Commission approval under Section 19(b)(2). In the future, any new examinations should be filed as non-controversial rule changes for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Exchange Act and Rule 19b-4(f)(6) thereunder. As you know, Rule 19b-4(f)(6) requires the SRO to give notice to the Commission of its intent to file a proposed rule change five days before doing so. During the five days prior to filing, the Division will determine if the proposed rule change is appropriately filed as non-controversial. To assist us in our analysis, please include a complete description of the examination in your rule filing. For example, the proposed rule change should address who will be required to take the exam, what information the exam will cover, the time allotted for each section, the weight assigned to each topic, the effective date of the exam requirement, and any other information that would be helpful to us in determining whether the proposal should become effective on filing. Also, pursuant to Rule 19b-4(f)(6), the rule change should be designated as effecting a change that does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition and, by its terms, does not become operative for 30 days after the date of the filing.

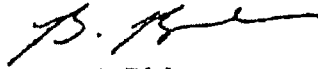
Alden S. Adkins

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Filings to modify an existing examination should be submitted as "constituting a stated policy, practice, or interpretation with respect to the meaning, administration or enforcement of an existing rule..." pursuant to Section 19(b)(3)(A) of the Exchange Act.

Our goal in changing these procedures is to expedite the effectiveness of proposed rule changes involving examination requirements for persons associated with SRO members. Please contact Kathy England, Assistant Director, at 202-942-0154, or Karl Varner, Special Counsel, at 202-942-7125, if you have any questions.

Sincerely,



Belinda Blaine  
Associate Director